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SUBJECT: Hainan Airlines Plans Expansion and Name Change

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¶1. (SBU) SUMMARY: Hainan Airlines (HNA) Chairman Chen Feng told the Consul General that HNA plans to begin direct cargo flights to Boston in early 2007, followed by passenger flights later that year. Chen also said that HNA will change its name to "Grand China Air," and will invest an additional USD 2 billion in operating capital. This represents a significant opportunity for U.S. aircraft manufacturers and service companies, but Chen clearly wants to be wooed with frequent senior-level visits to HNA. Chen's management practices promote a service-oriented corporate culture that blends service industry best-practices with Eastern philosophy. END SUMMARY.

¶2. (SBU) HNA plans to begin direct cargo flights from Beijing or Shanghai to Boston in early 2007. Direct passenger flights along the same route would likely follow in mid to late 2007. Chen noted that flights to the United States are almost always fully booked, but lack similar return capacity; he said that routes need at least 40% return capacity in order to earn a profit.

¶3. (SBU) Chen discussed his plans to rename Hainan airlines "Grand China Air." With additional operating capital of USD 2 billion, the airline would expand its domestic and international services and establish itself as more than just a southern China regional airline.

¶4. (SBU) HNA is the biggest buyer of aircraft in China, according to Chen. The creation of Grand China Air and expansion of services would be a significant opportunity for U.S. aircraft manufacturers and service companies. But to fully take advantage of this commercial opportunity, U.S. aircraft manufacturing representatives must - likely as a sign of respect but also to show that they are in the market for the long run in terms of service - increase the frequency of their senior representatives' visits to South China. Chen lamented that senior Boeing officials had not visited HNA for 10 years. While HNA will continue to balance aircraft purchases between Airbus and Boeing, Chen clearly prefers a balance in favor of Boeing.

¶6. (SBU) Chen stated that HNA currently flies 600 routes with approximately 3200 flights per week. His management philosophy centers on a service-oriented corporate culture that blends industry best-practices with Eastern philosophy. HNA's 30,000 employees are required to learn the company's philosophy. HNA's managers must even submit their personal thoughts (hand-written) about the company philosophy each month. Chen compared his company to a school where the employees learn how to spend their

lives.

17. (SBU) BIO NOTES: Chen is a Tibetan Buddhist and speaks English well. He is a self-taught English speaker, who recognized the value of the language as a young employee with China's civil aviation administration. Chen is an open, friendly, and animated interlocutor, preferring a casual, rapid fire, and at times startlingly frank, exchange of opinions. During his initial meeting with the Consul General, Chen dressed in unadorned traditional white Buddhist clothing. Chen's wife, son, and grandson live in the United States, where he owns a home. His son works as an investment banker for the Soros Group in New York.

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